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The Future Role of Livestock Cooperatives

Abstract

The Future Role of Livestock Cooperatives
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In 1985, a total of 17 regional cooperatives marketed livestock. These cooperatives were created to provide greater competition, bargaining power, and market access for producers. Growth in direct marketing, bypassing the services of cooperatives, has occurred because the number of buyers has decreased and producers want to improve marketing efficiency or lower explicit costs. Less emphasis on providing convenient markets, more competitive service charges, supplementing buy-sell operations with advisory services to help members manage risk, and increasing coordination are options that might enable cooperatives to continue to meet their original objectives.

Key words: Cooperatives,
livestock, marketing.

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Highlights

Livestock marketing cooperatives were created to provide greater competition, bargaining power, and market access for producers. In 1985, some 17 regional cooperatives specialized in marketing live animals. Most of the cooperatives are in the Central and North Central States. They offer a variety of services, including auction marketing, electronic or computerized marketing, buying stations, private treaty sales, onfarm sales, procurement of feeder and slaughter livestock, credit, and production and marketing advice.

Livestock cooperatives are middlemen or intermediaries between the producer and packer. Cooperatives have always emphasized the importance of a competitive market system to establish prices. Yet the nationwide trend to direct marketing from the farm or feedlot straight to the buyer bypasses the assembly points, auctions, or terminal markets that are the focus of cooperatives' operations. So-called "competitive" markets are not necessarily competitive now because of the excess capacity in marketing facilities nationwide and the diminishing number of buyers. The growth of direct marketing reflects an emphasis among livestock producers on efficiency and reduction of specific marketing costs.

Nationwide overcapacity in marketing facilities has a counterpart among cooperatives, in overlapping marketing territories, redundant sources of market information, education, and financial services. The current fragmented approach by cooperatives to industrywide or regional issues of concern precludes optimal use of the marketing or political "clout" suggested by volume or membership.

Other issues affecting the survival of cooperatives arise from their role as marketers of services. Cooperatives in other commodities "add to" or transform product value as a base for member investment in processing facilities and commitment through marketing agreements. Livestock cooperatives rely on retained earnings to finance investment and rarely use marketing agreements. These approaches are a concession to the reputed "independence" of livestock producers. As a result, livestock cooperatives are, overall, in a weak financial position.

Unlike a physically transformed product, services are intangible. To be evaluated, they must be experienced. Moreover, services are not standardized. The quality and consistency of the service varies according to the demand for the service and skills and attitudes of the providers. Consequently, there is considerable risk associated with use of services, which potential users may respond to by attempting to duplicate the service themselves, as in direct marketing. The fact of being a cooperative can also increase producer uncertainty to the extent producers are unfamiliar with cooperative principles and benefits.

In general terms, resolution of these issues affecting the future direction of cooperatives demands greater attention to lowering marketing costs and greater coordination among cooperatives. As service providers, cooperatives need to define their role not exclusively in terms of providing a competitive market, but also as a tool to help producers manage production, marketing, and financial risk. Doing so will require cooperatives to separate services that can be standardized (like livestock assembly and sales) from those that should be personalized and to adjust charges accordingly. A future role for cooperatives is combining buy-sell operations with advisory services, oriented to one of the growth areas of agriculture, part-time producers. Support for this course of action was demonstrated in a survey of producer-members from 13 livestock cooperatives.

The 868 respondents wanted from their cooperatives:

(a) an increase in the prices received for livestock or the number of buyers bidding.

(b) a reduction of marketing charges.

(c) an improvement in member relations or more education on cooperative principles.

(d) more personal contact with cooperatives through (in order of preference) farm visits, small-group district meeting, or telephone contact.

(e) prediction and analysis of market developments in a newsletter to members.

(f) greater advertising of cooperatives' services.

Survey respondents indicated cooperative marketing charges were too high. To test the validity of this claim, the charges of cooperative and independent auctions were compared using hypothetical loads of livestock. The analysis covered five cooperatives (each operating more than one auction). These charges were compared with the cost of using any of 6-10 adjacent independent auctions, depending on the State under consideration. Evidence suggests cooperatives may depend too much on providing convenient market locations and not enough on competitive marketing charges.

The analysis also showed it is possible for cooperatives to be very competitive if they limit the number of auctions operated. The cooperative with the lowest number of auctions had lower marketing charges than seven competing auctions out of eight selected for analysis.

Country cattle marketing uses a sales representative to merchandise cattle to prospective buyers. (Photo courtesy Iowa Farm Bureau Federation)

THE FUTURE ROLE OF LIVESTOCK COOPERATIVES

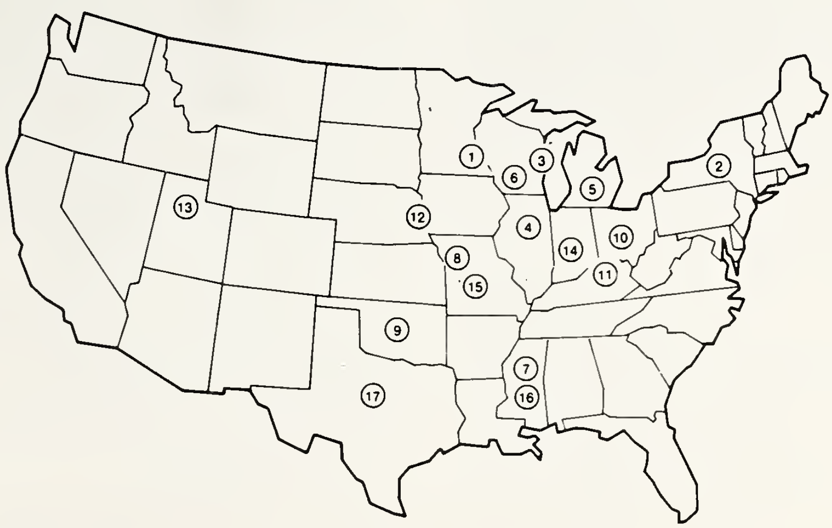
Julie A. Hogeland

Livestock marketing cooperatives were created to provide greater competition, bargaining power, and market access for producers. It is not clear livestock cooperatives can survive by relying on operating philosophies and marketing methods perfected in the first half of this century. Increased direct marketing of livestock, from the farm or feedlot straight to the buyer, bypasses the assembly points, auctions, or terminal markets that are the focus of the cooperatives' operations. Cooperatives need a new approach to marketing. This report is a response to the concern of producers and others interested in a continuation of joint or cooperative marketing in the livestock industry. The report assesses producer-member perceptions and industry trends to identify adjustments in structure or services needed to strengthen the position and effectiveness of livestock marketing cooperatives.

In 1985, a total of 17 regional cooperatives specialized in marketing live animals (Figure 1).

Some attention has been paid to the marketing and membership issues facing these cooperatives (see "Improvements in Cooperative Livestock Marketing: A Study of the Equity Cooperative Sales Assn.," Farmer Cooperative Service Research Report 11, June 1979), but no overall evaluation has been done. Yet the evolving structure of the livestock meat industry of fewer and larger plants, farms, and feedlots suggests that analysis of the issues confronting cooperatives as a group should be a priority for several reasons. First, many cooperatives market to the same packers and draw members from the same regions. Anticipated decreases in livestock production will exacerbate problems of overlapping marketing territories. Second, electronic marketing and other innovative sales programs require joint efforts for optimum results. Third, financial services like hedging will be more frequently used in the future, and require greater financial strength and expertise than may be available to an individual cooperative under the current cooperative structure. Fourth, cooperative marketing is

Figure 1. Cooperatives specializing in marketing live animals



1. Central Livestock Assn., Inc., South St. Paul, MN
2. Empire Livestock Marketing Cooperative, Ithaca, NY
3. Equity Cooperative Livestock Sales Assn., Baraboo, WI
4. Interstate Producers Livestock Assn., Peoria, IL
5. Michigan Livestock Exchange, Lansing, MI
6. Midwest Livestock Producers Cooperative, Francis Creek, WI
7. Mississippi Livestock Producers Assn., Jackson, MS
8. MFA Livestock, Marshall, MO
9. National Livestock Commission Assn., Oklahoma City, OK
10. Producers Livestock Assn., Columbus, OH
11. Producers Livestock Marketing Assn., Louisville, KY
12. Producers Livestock Marketing Assn., Omaha, NE
13. Producers Livestock Marketing Assn., North Salt Lake, UT
14. Producers Marketing Assn., Indianapolis, IN
15. Producers & Texas Livestock Marketing Assn., Kansas City, MO
16. Southeast Mississippi Livestock Producers Assn., Hattiesburg, MS
17. Texas Livestock Marketing Assn., Forth Worth, TX

unique in the industry. Cooperatives are producer owned and operated. Shared perspectives and ideals magnify their opportunities for improving the bargaining power of livestock producers and thereby having a positive impact on industry structure and performance.

This report is also unique because it analyzes the future role of the cooperatives from the standpoint of a type of organization marketing services. Product marketing is well understood but analysis of organizations marketing services remains a new field. Banks, hospitals, and airlines are some of the organizations studied as service providers. However, their problems are very different from those of organizations, like cooperatives, that function as middlemen or intermediaries between one part of the marketing chain (producer) and another (packer).

Some cooperatives are highly successful; others are not. Many cooperatives have difficulty focusing on broader issues of future trends because surviving on a year-to-year basis has become paramount. This report fills that void by going beyond diversity in volume, market classes, and operating philosophy to identify common problems and provide alternatives. Nevertheless, this report does not provide all the answers. Like other segments of American agriculture in 1986, livestock cooperatives must anticipate continued difficulties until the agricultural economy improves.

Contributions of cooperatives and affiliated organizations to improvements in livestock marketing prior to the late 1970's are not discussed in this report. The prevailing belief among many of those interviewed was that livestock cooperatives must overcome a tendency to let pride in past accomplishments override a bold commitment to meeting future challenges.

PRODUCER-MEMBER SURVEY

Most of this study is based on a survey of cooperative members and managers. Fourteen managers were interviewed in person and three by telephone. Supplementary information also was received from an Extension Service livestock marketing specialist, meatpackers, and livestock or services marketing publications and data. Representatives of the American Farm Bureau Federation, the National Live Stock Producers Association (a federated cooperative of livestock marketing cooperatives), and the Livestock Marketing Association (a trade association for auctions and dealers) also were interviewed.

For the survey, 13 cooperatives distributed 200 to 1,300 questionnaires to a primarily random sample of members. The questionnaire asked the following:

1. Why do producers choose to market through the cooperative?

2. Are there changes the cooperative could make to increase its services in livestock marketing?

3. How can the cooperative work more closely with you as a producer?

4. What could the cooperative do to increase membership and/or the volume of livestock marketings?

5. What could the cooperative do to increase member commitment or involvement in the cooperative?

6. How can the staff, management, and board of directors of the cooperative best serve members?

A total of 868 questionnaires were returned. The number of responses received per cooperative was Equity, 68; Interstate, 69; Texas, 44; PMA, 56; Omaha, 109 (includes Sioux City); PLMA, 64; MLE, 53; PLA, 78; Central, 138; and Empire, 162.

Across cooperatives, and from each cooperative, producers wanted:

(a) an increase in the prices for livestock or the number of buyers bidding.

(b) a reduction of marketing charges.

(c) an improvement in member relations or more education on cooperative principles.

(d) more personal contact with the cooperatives through (in order of preference) farm visits, small-group district meetings, or telephone contact.

(e) prediction and analysis of market developments in a newsletter to members.

(f) greater advertising of the cooperatives' services.

These are the key findings of the survey. Secondary issues dealt with how services were offered, including facilities, quality of staff, and timing of sale.

INDUSTRY STRUCTURE

Cooperative History

Most livestock marketing cooperatives were established during the first half of this century. At that time, most meatpackers were adjacent to large cities. Farmers formed shipping associations to assemble and transport livestock to the central markets associated with these meatpacking centers. Some livestock cooperatives were an outgrowth of these associations. Others arose because producers needed representation at markets. The cooperative grouped its livestock into saleable lots, then bargained with packers for the best price. Cooperatives also formed stocker and feeder divisions to transfer livestock between producers without involving a dealer. Because information on prices and buyers was not readily available at the farm level, producers had a strong need for the marketing knowledge and bargaining ability of cooperatives.

Decentralization of the packing industry and development of a highway and communications network reduced the need for farmers to haul livestock to central markets. Local auctions, packer buying stations, and, for large producers, onfarm sales became primary ways to sell livestock. Livestock cooperatives accommodated these changes in market structure by operating more auctions, buying livestock themselves for resale, or, for some species, holding computerized auctions (called electronic markets) that permit livestock to remain on the farm until sold.

Overview of Cooperatives' Services

Today, the basic services of cooperatives continue to be buying and selling livestock for farmer-members. These services are offered at auctions, hog-buying stations, or commission firms at a terminal market. Cooperatives also sell livestock on farm, particularly cattle (called country sales or, in the South, board sales), or dairy herds. Feeder and slaughter hogs, sheep, and lambs, and feeder cattle are sold by some cooperatives through teleauctions or electronic markets. However, except for sheep, onfarm and electronic sales are as yet a small component of cooperatives' total sales (table 1). Occasionally, cooperatives export breeding livestock.

Seven cooperatives provide credit services to members and 12 provide other financial services like hedging or forward cash contracting. Some members routinely use cooperatives for production and marketing advice, a free, informal service offered by all the livestock cooperatives. Such information is supplemented by weekly or quarterly newsletters and market reports, radio reports, and marketing seminars. Although cooperatives concentrate on livestock assembly and selling, most offer a variety of services to livestock producers.

Extent of Fragmentation

Probably the salient feature of the livestock industry affecting cooperatives is the fragmented marketing system. In 1983, the United States had 1,786 auctions and 5,900 dealers and order buyers. During that year, 745 packers made direct purchases of slaughter livestock. The number of cooperative auctions in 1983 (including small auctions held by local cooperatives) was about 113. The 17 regional livestock cooperatives that are the focus of this report had 67 auction markets during 1984/85. Auctions and other livestock marketing middlemen, dealers, and order buyers are in oversupply. Table 2 shows the extent of this oversupply in the context of the States that form the primary marketing territory of each cooperatives.

Order buyers fill the procurement needs of livestock buyers primarily through terminal markets, auctions, dealers, or local markets. Order buyers can reduce competition at an auction by simultaneously procuring livestock for several packers who otherwise might bid individually. Packers also have their own buyers attend auctions or visit farms to monitor and bid on available livestock. Packers also operate country buying stations. Dealers buy and sell livestock, either on farm, or at their own country buying stations.

Fragmentation persists because packers split orders among several outlets, weighing the additional procurement cost against the probability of increasing the price at any particular market by increasing demand, and because small family-run auctions may not require a substantial total profit to stay in operation. Farmers selling a few animals for quick cash primarily want a convenient market outlet, a need served by small auctions without sophisticated services. In 1980, more than 80 percent of cow-calf operators used auctions to sell some of their cull cows and/or feeder calves.[1*] More than 52 percent of slaughter cows and bulls were sold by auction in 1980.[2]

*Footnote references are at the end of the text.

Table 1—Membership and marketing services of livestock cooperatives, 1984-85

Cooperative	Approximate membership	Auction markets outside terminal	Commission firm at terminal market	Special sales yearly by market class
Central	40,000 (1984) 45,000 (1980)	0	South St. Paul, MN West Fargo, ND Sioux Falls, SD	Feeder cattle (12) lamb pools
Empire	25,000 (1984) 30,000 (1980)	9	No	Hog pools
Equity	56,046 (1984) 55,000 (1980)	9	No	Dairy replacements (60), feeder calves (200), feeder pigs (6/wk), lamb pools
Interstate	31,598 (1984) 40,373 (1980)	3	Peoria, IL St. Louis, MO	Feeder cattle (5), lamb pools
Michigan Livestock Exchange	26,000 (1984) 17,546 (1980)	5	No	Dairy replacements (24), feeder calves (15), feeder pigs (5/wk), feeder pigs, lamb pools, horse sales
Midwest Livestock Producers Co-op	20,000 (1984) 18,000 (1980)	9	No	Dairy replacements (108), feeder cattle (108), lamb pools, horse sales
Mississippi Livestock Producers Assn.	32,500 (1984) 32,500 (1980)	3	No	Feeder cattle (3)
MFA Livestock	7,807 (1984) 8,294 (1980)	1	St. Joseph, MO	Breeding stock (12), feeder cattle (20)
National Livestock Comm. Assn.	5,500 (1984) 5,000 (1980)	0	Oklahoma City, OK	Feeder calf (2)
Producers Livestock Association (OH)	35,000 (1984) 42,000 (1980)	17	No	Feeder calves (20), feeder pigs (50)
Producers Livestock Marketing Assn. (KY)	8,500 (1984) 10,000 (1980)	0	Louisville, KY	Feeder calves (3), lamb pools, horse sales
Producers Livestock Marketing Assn. (Omaha)	10,000 (1984, incl. Sioux City) 7,500 (1980, Omaha alone)	0	Omaha, NE Sioux City, IA	Feeder cattle
Producers Livestock Mktg. Assn. (Utah)	18,000 (1984) 16,780 (1980)	8	No	Dairy replacemnts (4), feeder calves (3), feeder cattle (4),
Producers Marketing Assn.	20,000 (1984) 20,000 (1980)	1	Indianapolis, IN	8-10 feeder cattle
Producers & Texas Livestock Mktg. Assn.	800 (1984) 1,200 (1980)	1	Kansas City MO	No
SE Mississippi Livestock Prod. Assn.	6,000 (1984) 4,000 (1980)	1	No	Feeder cattle (board sales)
Texas Livestock Marketing Assn.	2,000 (1984) 2,000 (1980)	0	San Antonio, TX	0

Table 1—Membership and marketing services of livestock cooperatives, 1984-85 (cont'd.)

Electronic marketing by class	Order buying for packers	Order buying for producers	Market support order buying	Hog buying stations	County sales program and species emphases	Dealer operations & market class emphases
Sheep	Yes	Yes	Yes	0	Slaughter cattle	No
No	No	Very little		0	Dairy cattle	Cull dairy cows, bob calves
Sheep, slaughter hogs	Yes	Very little	Yes	3	Feeder cattle	Hogs, dairy cattle special-fed veal calves
Slaughter hogs	Yes	Yes	Yes	40	Slaughter cattle, slaughter hogs	Hogs, feeder pigs, feeder cattle, slaughter cattle, sheep
Feeder cattle	Yes	Yes	Yes	8	No	Slaughter hogs
No	Yes	Yes	Yes	2	Feeder pigs Feeder cattle	All market classes handled
No	No	No	Yes	0	Feeder cattle (board sales)	No
Feeder pig teleauction	Yes	Yes	Yes	10	Slaughter cattle	Hogs, feeder cattle, slaughter cattle
No	Yes	Yes	No	No	Feeder cattle feeder calves, market hogs	All market classes handled
No	Yes	Yes	Yes	6 (Also auctions buy hogs)	Cattle	Slaughter hogs
No	Yes	Yes	Yes	0	Cattle	Lambs
No	No	Yes	Yes	4 (for Farm Bureau) members	Slaughter cattle	No
No	Yes	Yes	Yes	No	Cattle	All market classes handled
Slaughter hogs	Yes	Yes	Yes	15	Cattle hogs	All market classes handled
No	Yes	Yes	No	No	Cattle	No
No	Very little	No	Yes	No	Feeder cattle (board sales)	No
Feeder cattle	No	Yes	No	No	Feeder cattle	No

Table 2—Number of auctions, dealers, and orderbuyers in States with livestock cooperatives, 1983

Cooperative and primary marketing territory	Cooperative auction markets	Auctions statewide[1]	Statewide dealers and orderbuyers	Terminal markets[1]
1. Central, Minnesota,	0	53	259	1
South Dakota		52	190	1
2. Empire, New York	9	45	179	0
3. Equity, Wisconsin	9	29	333	1
4. Interstate, Missouri,	3	120	242	4
Illinois,		49	378	3
Indiana		39	131	1
5. Michigan Livestock Exchange, Michigan	5	30	39	0
6. Midwest Livestock Producers Co-op, Wisconsin	9	29	333	1
7. Mississippi Livestock Producers Association, Mississippi	3	43	70	0
8. MFA Livestock, Missouri	1	120	242	4
9. National Livestock Commission Association, Oklahoma	0	75	147	3
10. Producers Livestock Assn., Ohio	17	38	151	0
11. Producers Livestock Marketing Association, Kentucky	0	52	74	1
12. Producers Livestock Marketing Association, Nebraska	0	76	349	1
Iowa		117	506	2
13. Producers Livestock Marketing Association, Utah	8	11	68	0
Calif.		52	206	1
Idaho		24	119	0
Colorado		30	142	0
14. Producers Marketing Assn., Indiana	1	39	131	1
Kentucky		52	74	1
15. Producers & Texas Livestock Marketing Assn., Kansas	1	84	234	0
Missouri		120	242	4
16. Southeast Mississippi Livestock Producers Assn., Mississippi	1	43	70	0
17. Texas Livestock Marketing Assn., Texas	0	171	360	1
Oklahoma		75	147	3

Source: Packers and Stockyards Administration

[1]Terminals have more than one market agency selling on commission; auctions have only one.

Decentralized marketing is reflected in packing plant size and capacity. The six largest plants slaughtering cows and bulls accounted for only 15 percent of output in 1982.[3] By contrast, four-firm concentration ratios for steers and heifers ranged from 46 percent to 81 percent, depending on the region, and were much higher on a State-by-State basis.[4] Essentially the same situation exists for pork slaughter. The distribution of plants slaughtering cows and bulls is much more even across the country, corresponding to the distribution of beef cow and dairy herds.

These slaughter concentration ratios have several implications for livestock cooperatives. Slaughter cattle and pork producers are likely to have problems of market access in areas where plants are not concentrated. They automatically ship livestock to the same plant, time after time, because they have so few choices. Because packing plants usually procure livestock from within 75 to 300 miles of the plant, the same situation often exists for producers in States or regions with high concentration. In each case, producers may not perceive a need for a marketing agency.

Implications of Fragmentation

Fragmentation will probably be a continuing feature of the livestock marketing environment. Despite the interest of some packers in reducing procurement costs by consolidating purchases, family-run auctions, dealers, and local markets will continue to operate. The existence of so many options for marketing livestock, particularly feeder cattle, contributes to the difficulty of coordinating and increasing the efficiency of production and marketing.

According to a recent USDA report, inefficiency within the cattle sector occurs through transporting cattle several times, overfeeding or underfeeding, poor timing of sales, and inaccurate pricing.[5] Producers often lack information on the cutability and quality of cattle sold so they do not know if breeding or feeding needs adjustment. Improved performance is considered possible and highly desirable through coordinating genetic types, feeding regimes, ration formulation, and marketing approaches via new technologies in information storage, communication, and retrieval.

Many industry observers have predicted the late 1980's will bring slower growth for the beef and pork industries, as a result of growing consumer preferences for poultry.[6] Another industry trend particularly important to livestock cooperatives is the development of a bimodal agriculture as the number of large, highly specialized, and small, part-time producers is expected to increase, relative to the group customarily served by cooperatives, medium-sized family farmers.

The adverse impacts of these developments on cooperatives could be partially offset by diversification among livestock producers. The dominant trend has been enterprise specialization. However, industry observers anticipate prices will become more volatile in the future, so it is possible producers will seek methods such as diversification to reduce risk.[7] In 1980, a third of all farmers who fed cattle operated at least two more livestock enterprises, particularly hogs or beef cows. A critical and unknown variable is the availability of financing.

Adaptations to Fragmentation

Many of the cooperatives are affiliated with the National Live Stock Producers Association. (NLSPA), or the Farm Bureau. These organizations have made extensive contributions toward refining the role and marketing approach of cooperatives to correspond to the emerging needs of livestock producers. In particular, contributions have been made in the areas of:

(a) developing and extending electronic markets.

(b) implementing onfarm sales of livestock by cooperatives.

(c) developing programs to keep producers up to date on market trends and marketing strategies.

(d) providing a forum to evaluate and respond to trends in the livestock-meat industry.

(e) promoting production and consumption of red meats.

The purpose of NLSPA is to provide services to member marketing agencies and credit corporations to assist them in becoming more effective in marketing livestock and serving the credit needs of producers. The Farm Bureau is a general farm organization. Affiliation with livestock cooperatives reflects the interest the Farm Bureau has in providing competitive livestock markets and market access for members. The Farm Bureau and NLSPA both provide insurance to livestock cooperatives.

SPECIAL PROBLEMS

How Uncertainty Affects Use of Services

In the past decade, services marketing has developed as a specialty distinct from product marketing. Several issues affecting the future role of livestock cooperatives, including the responses to the member survey, can be examined using a framework established by the common concerns of organizations marketing services.

For several reasons, services typically have more risk associated with their purchase than products. The most important reason is that services are intangible. Unlike products, services cannot be physically demonstrated, they must be experienced. Because services are intangible, users pay attention to tangibles associated with the service as indicators of the quality and nature of the service. The task of the service provider is to manage these clues or indicators so that appropriate messages are conveyed.

Services are not standardized. Their quality and consistency vary according to the demand for the service and on the skills and attitudes of those providing the service. The customer or patron also contributes to the quality of the service. In the case of livestock marketing, the patron provides information about price objectives, the quality and volume of livestock, and transportation. If the price information is not clear or unrealistic, the livestock are poor quality, and they do not arrive at the yards at an optimal time for shipment, the cooperative has much more difficulty delivering desirable service.

Services also are risky because most people are unfamiliar with professional services and hesitant to use them. "Even if they recognize their need for help, they may entertain wrong ideas about what the service should cost and what a professional can reasonably be expected to do for them. Finally, they may not know where or how to get the facts for a better informed choice. Widespread buyer uncertainty is a basic marketing issue for producers of professional services and they must emphasize education rather than persuasion in their marketing."[8]

The "cooperative" component of the livestock marketing agencies covered in this study provides certain benefits to the producer, but can also complicate the marketing process, to the extent producers don't know what a cooperative is, or have unrealistic expectations about cooperatives. Moreover, the image of livestock cooperatives is undoubtedly colored by producers' perceptions of or experiences with other commodity or farm supply cooperatives. These factors can affect the attitude of producers and increase the need for education beyond what may be ordinarily required for an organization marketing services.

"Brand loyalty" has been believed to be stronger for services than for products because of the uncertainty associated with use of a service and the advantages offered by becoming a "regular customer."[9] Greater knowledge of the user's preferences facilitates a satisfactory transaction. Personal relationships between producers and marketing agencies or between producers and packer buyers can be said to be a pivotal aspect of the livestock marketing process.

Uncertainty over whether to patronize a livestock cooperative can result from the following:

(a) whether the producer is capable of duplicating the services of the cooperative.

(b) whether a transaction will be completed, and completed satisfactorily, once livestock have been consigned to the cooperative.

(c) whether the price received from marketing through the cooperative will outweigh trucking and marketing charges.

(d) whether another marketing agency should have been used. Yearly membership turnover among some cooperatives is as high as 50 percent. Some of this is due to producers dropping out of production, and some is a result of opportunities to choose among many competing outlets.

(e) whether the location, schedule, or marketing skill of the agency chosen for sale will net the producer the top price of the market.

Use of cooperatives also relieves uncertainty. For example, survey comments indicated one of the key advantages associated with cooperatives (especially at terminals) was the opportunity they offered to sell livestock with poorly defined markets, i.e., cull cows, heavy hogs, sows, boars, bob or deacon (day-old) calves, feeder pigs, fed holsteins, veal calves, and sheep. It is not necessarily clear to producers which buyers are interested in the number and quality of stock on hand. Unlike large producers of slaughter hogs or cattle, producers of these minor species are rarely in the market every day or even weekly, so they have little knowledge of price trends to use for negotiation.

Another example of how cooperatives reduce uncertainty is the marketing of feeder cattle (a much larger component of cooperative services than fed cattle). Effective feeder cattle marketing requires a good sense of costs of production and methods of reducing price risk. The initial asking price can signal to the buyer how well the seller knows market conditions, and adjustments to prices and delivery terms depend on the bargaining skill of each party.

Cooperatives also relieve uncertainty by being a producer-owned organization, existing for the benefit of producers.

Why Producers Use Livestock Cooperatives

Across all cooperatives surveyed, producers consistently indicated they used cooperatives because of (1) location or convenience, (2) prices received or buyer competition and (3) a liking for the personnel or management. The latter was indicated much less than location, convenience, or prices. Reasons such as reputation, reliability of the market, or attractiveness of cooperative or group marketing were seldom mentioned, although such reasons would have a bearing on the top three.

Selected comments from the producer-member survey illustrate the strengths of cooperatives, particularly in terms of prices received or buyer competition:

• "Most farmers don't have the time or enough interest to follow all the technical or trend information for a good sales program. Therefore, they depend on advice from those who work with it every day. Packers generally are not as accommodating and have a narrower perspective."

• "We need competition among buyers. With the entry of [a major packer] into the pork industry it seems that each packer will have his area and set the price for that area. We need collective marketing to ensure we as producers get a fair share for our livestock."

• "Producers chose to market through (the cooperative) primarily because it is more service oriented. Being a cooperative the profit in dollars at the end of the year is not the highest priority. The cooperative's employees feel accountable to the cooperative's members and it shows."

• "If I sell direct it is hard to get more than one buyer to visit my farm on any given day. Usually the direct buyer wants you to keep the cattle for as long as a week after he buys them. Also there is the possibility that unknown to me the packer might be in financial difficulties. I choose the cooperative for competition in bidding for my cattle and assurance the check I receive will be good."

• "I use their on-the-farm marketing service and it has worked well for me. In addition, they are helping me to get cattle bought for my feedlot. Handling hedges, futures contracts, options, and forward contracting will gain importance in the future."

• "They provide service at stockyard points and a country sales service to sell directly to packers."

• "I like the man who represents the cooperative in my area. I like to know the price my cattle will bring *before* they leave home. I think they have more buyers bidding on my cattle than the yards."

• "It is very hard to have a buyer look at your cattle. The cooperative has provided a service of bidding and looking at cattle plus advising to sell or wait for a short period of time."

• "In my area the cooperative is the major livestock market and the only weekly auction in this 3-5 county area. They are well established and offer all phases of procurement of feeder stock to marketing finished livestock."

Cost of Service

The price of the service and the physical facilities used for the service are often the only clues to the quality of the service.[10] From the survey:

• "The cooperative charges too much commission on fat cattle for the service I get. I pay $8 or $9 per head. The cooperative sells a pig and it takes just as long and gets a dollar. A lot of people sell their cattle in the country just because the commission is too high."

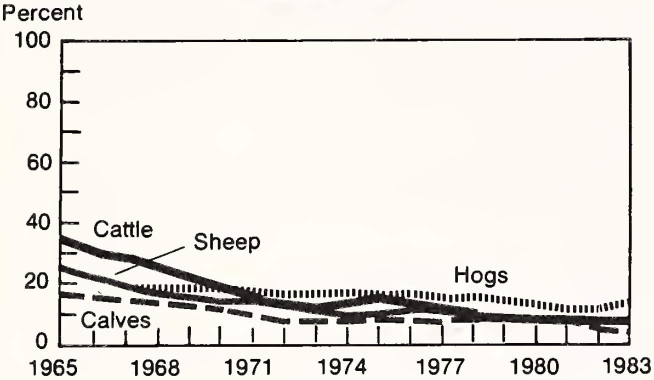
• "Why should I pay $.50/cwt. to have phone calls made that I can make and do sorting that I can do. Recognize that some producers have some skills in marketing and everybody does not have the same needs. Provide different levels of services."

• "Is fee set on percentage or strictly by number of head? It doesn't take any more effort to show 100 head in one location than 25 head."

• "Where there are two offices involved in handling a set of cattle or livestock for a person they should be able to operate on one commission instead of each office charging from 50 cents to $2.00/cwt for their services."

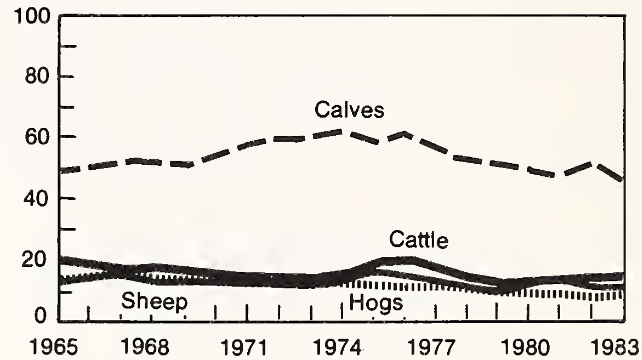
Charges of livestock marketing agencies have been estimated to be about 1.5 percent of prices.[11] Industry competition, as well as the cooperative principle of "providing service at cost," suggests the cooperatives' services are not overpriced. Yet, they may be too high, given the growth in direct marketing. Competition among middlemen like livestock marketing outlets suggests charges are probably close to the cost of providing service. In general, when middlemen begin to cost too much, new channel innovations (ways of marketing and distribution) usually develop to replace them.[12] Over the 1965-83 period, combined terminal and auction marketings of cattle declined 54 percent; calves, 71 percent; hogs, 34 percent; and sheep, 90.7 percent. (See figures 2-8.)

Figure 2. Terminal market sales by species



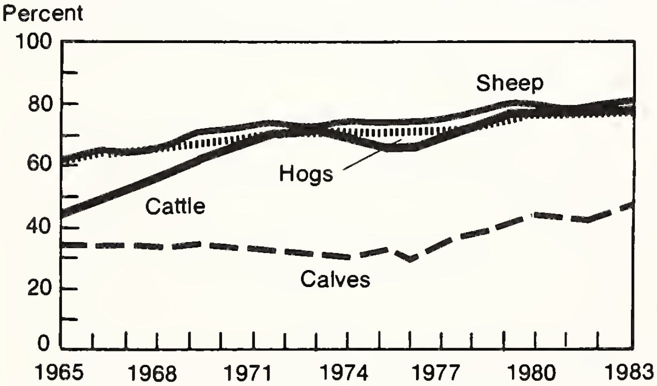
Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Figure 3. Auction market sales by species



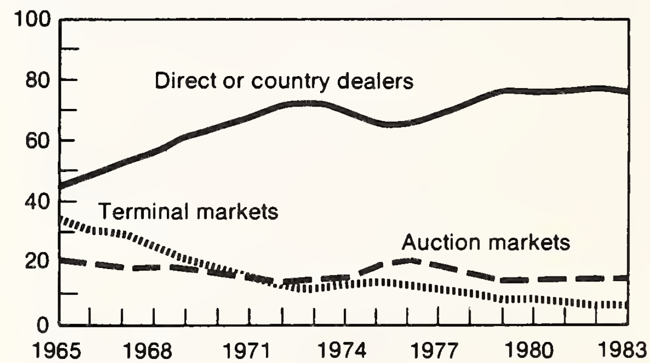
Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Figure 4. Direct or country dealer sales by species



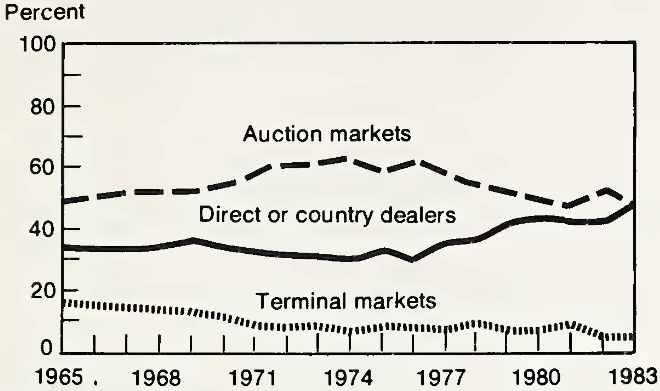
Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Figure 5. Cattle purchases by market types



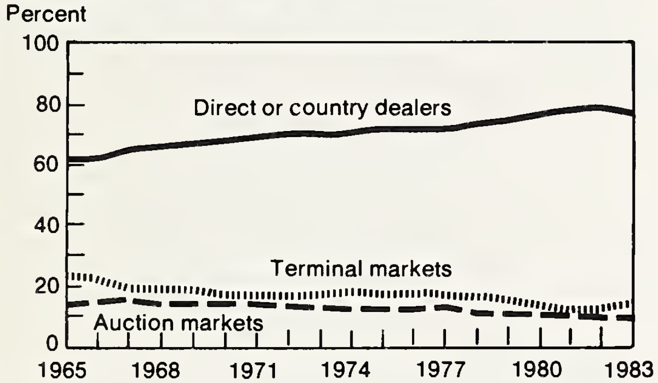
Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Figure 6. Calf purchases by market types



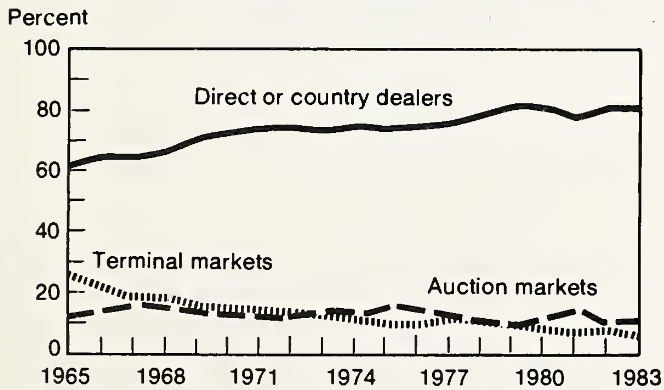
Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Figure 7. Hog purchases by market types



Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Figure 8. Sheep purchases by market types



Source: Packers and Stockyards Administration, Statistical Resume', Various Years

Terminals Are a Special Case

At a terminal, the labor involved in assembling, watering, feeding, co-mingling, selling, and shipping livestock is split between the staff of the stockyards company and the marketing agency. Typically, the two sets of employees will work with the livestock on a rotating basis: one prepares for sale, the other sells, etc. Generally the two groups do not interchange tasks because work duties may be defined for at least one group by union contract. The marketing charges are split about equally between the stockyards company and the marketing agency.

How do livestock producers perceive the labor-intensiveness of the terminal marketing process?

• The cooperative was described as the most convenient, best, and sometimes the only market for sows, boars, and cull cows, but "We sell no butcher hogs to the cooperative (at the terminal) because of the commission and the inability to receive a grade and yield premium. The terminal is rarely competitive with (specified hog packers)."

• "Get the yardage and insurance lowered: Example: 38 hogs to (a local packer) costs $30 in trucking plus $7.60 insurance equals $37.60 (whereas) 38 hogs to the terminal equals $173.22."

• "All cattle should be auctioned. The cooperative should build their own sales barn and get away from the stockyard company completely. They could get enough cattle this way to have an auction every day and get by without the stockyards expense."

• "A hog doesn't need feed or bedding to walk down an alley to a scale and then onto a truck to a slaughterhouse."

Marketing Cost Adjustments

Educating producers about the contribution of cooperative livestock marketing services to a competitive market system is not easy. If a cooperative should launch a campaign to alert producers through meetings and articles that direct marketing is costly, as a result of the lack of competitive bidding or reasons related to weighing or pencil shrink, packer business for cooperatives would undoubtedly be lost. Industrywide, the number of packers continues to decline. In 1970, some 1,323 plants reported purchases of livestock for slaughter, and in 1983, only

720. The success of cooperatives' selling and order-buying functions depends on increasing the number of packers who use them. Consequently, cooperatives must be subtle in noting to members and prospective members their contributions to a more equitable or competitive marketing system. Under these circumstances, their message may not be heard.

If education is likely to be ineffective, the cooperative should lower costs or use different ways of computing the costs. Currently, costs for auction and terminals marketing are almost always determined on a per-head basis, an approach that automatically discourages large producers. Managers interviewed indicated large producers were "no more than 5 percent" of their clientele. Yet, the cost of serving large producers is much less than small producers. One manager said marketings from one large producer could be equivalent to a week's volume from several small producers.

To get better differentials for large lots, it may be necessary for cooperatives to negotiate fees with producers (with USDA's Packers and Stockyards Administration (P&SA) approval), rather than work from a predetermined fee schedule. Charging according to the number of persons needed to assemble each lot is an alternative pricing structure suggested by the survey results. P&SA records tariffs or costs for marketing and associated services (yardage, insurance, veterinary services, etc.) for firms operating auctions and selling on commission at terminals.

Resistance to volume differentials will be based on the concept of "fairness" and "the need to help the small producer." Yet the cooperative principle of providing service at cost should provide a greater incentive to serve large producers. Certainly, the volume provided by large producers will maintain the existence of cooperatives for small producers. In a sense, large producers are being done a disservice because the current structure of marketing costs inhibits them from using cooperatives' services, and thereby realizing more of the benefits of a competitive marketing system.

Facility Quality

The physical appearance of offices, personnel, and equipment indicates the quality of service the producer can expect. Probably the most immediate indicator of quality is the appearance of the auction or terminal market yard. Cooperatives want to receive more comments like the following:

- "The cooperative's facilities at the yards are adequate, clean, and in good repair. Handlers at the yards are prompt, considerate of their customers. Shrink is mimimized by care taken not to excite the animals. Prices obtained by (the cooperative's) commission men are more than others."

- "I market through the cooperative because they are good stock handlers, stock is well fed and watered, excellent personnel to grade, show, and sell animals; and the cooperative is a qualified office where people get your money without any delay. I like the interest their employees show in all customers."

- "I like the scales which show the animal's weight as it comes into the ring instead of having to wait until after you've bought it to know its weight."

and fewer like these:

- "One day I visited the local cooperative hog market to price feeder pigs. The place was a mess, dirty, the entrance door would not close. I thought that I would not need to sell hogs through the cooperative."

- "If you intend to market more animals, maybe you need more pen room and ventilation. I don't like to send cows on warm days (75 degrees and up) because if crowded they get hot, sweaty, and sick, resulting in low prices."

- "Could devote more commission dollars to facilities and getting more buyers. Less new trucks for employees to drive and better internal observation of funds expended."

- "The volume of livestock marketing could be increased by improving and updating the facilities. Our market manager is okay but the facilities need *a lot* of repairs."

- "In our area the building is out of date with the times. There is way too much time spent in line on salesday. The biggest percent of stock is hauled with trailers so they need more trailer ramps."

The facility itself may be particularly important in the case of terminal markets. Steady declines in terminal market receipts increase the likelihood that a terminal market will have empty yards and abandoned slaughter plants within view. Moreover, most terminal markets are located in cities, which works against the emphasis on freshness and limited handling of livestock that pervades the industry today.

Cooperative auctions offer greater flexibility over terminal operations because facilities may be more easily opened or closed. In a terminal setting, the withdrawal of a commission firm penalizes the firms currently on the market and in the future as empty pens are left behind. From the survey:

• "It seems like commission goes up annually and the stockyards pens and commission men's offices get in worse physical condition."

• "Try to get a packer back into the stockyards so all livestock isn't shipped back out. It almost doesn't pay to ship livestock to the terminal anymore. If that isn't possible try to get a computer marketing system for hogs, then the producer could ship direct to the packer which would save costs and we might get more for our livestock."

• "Work to market livestock more efficiently from farmer to packer. This may mean bypassing the terminal market."

Custom cattle feeding has been advocated to fill empty pens.[13] But excess capacity of the terminal markets will probably continue, leading to further closings. Since 1940, an average of 12 terminal markets have closed each decade. By 1980, only 28 terminals remained. In the 1960's, Equity moved off a terminal, and began emphasizing auction marketing. In the 1970's, Texas Livestock Marketing Assn. moved off a terminal to emphasize electronic marketing. A similar move should be considered today by cooperatives concentrated in commission firms.

Quality of Staff

The skill level of the marketing agency's employees is another concern. More exacting standards from the consumer and more individualized personal attention from the service provider offset the tendency of consumers to perform the service on their own.[14] Can the cooperatives respond affirmatively when producers ask, "Do you speak our language?" The member survey indicated that because producers are quite sensitive to the skill and quality of employees, the answer is not necessarily "yes." More than anything else, marketing charges should be purchasing *marketing expertise*. The primary strengths of the staff of many cooperatives is that they are experienced, good communicators, and are in the market everyday, as demonstrated by the following comments:

• "I feel the relationship with (the cooperative's staff) has been excellent. The expertise provided has been excellent and they seem willing to help in any areas where more information may be needed."

• "Livestock producers market through the cooperative because of the agent specializing in selling, with years of experience in selling, who knows buyers and how to talk to them. The agent does a better job of selling than I can do."

In the future, knowledge of sophisticated marketing techniques and ability to predict or analyze (not merely describe) industry developments will increasingly need to supplement experience or knowledge obtained from being in the market everyday. Such knowledge becomes relatively less important and easy for the producers to obtain on their own as the number of packers and other market outlets decreases.

To meet this objective, cooperatives will need to change the people, training, or circumstances that led to the following comments:

• "Sometimes a cooperative fieldman stops in to talk. I don't feel he knows any more than I do about marketing."

• "Supply more operational information to members. We need something besides funny stories at annual meetings."

• "Get a few highly skilled professional fieldmen instead of the (uneducated people) they have now. A college degree should be a *must*."

• "Place or hire competent people in places of authority instead of if you have been here the longest the job is yours."

• "Be willing to have a representative stop at farms to discuss marketing strategies and production directions."

• "The terminal's commission firms are great hog drivers but poor marketing help."

• "Better communication of the cooperative's personnel with the producer is needed. It wouldn't hurt to have the sales personnel read Cattle-Fax and other informational material so they would be better informed."

These are general comments. More specifically, producers wanted more information about futures markets:

• "Would like information on using options or contracts in selling. So far, we have not made use of either, but are contemplating their use and could use advice as to when and how. So far due to the excellent selling ability of the cooperative's order buyers, we feel we have been ahead without the use of either."

• "For the producers using contracts as a selling tool explain why the price received for commodity is the price it is to the farmer - educate us!"

• "The cooperative at the terminal could tie in their market with the futures market. Since they are a delivery point for hogs, producers need more education about these markets and their potential."

Producers also wanted cooperatives to expand futures markets contracts:

• "Packers are going to a futures contract for customers. I'm sure the cooperative could do the same. The price fluctuations are killing me."

• "(The cooperative) could make a program to help producers market several months in advance to take advantage of profitable markets. Many producers are afraid to use commodity markets for fear of margin calls. (The cooperative) could help them overcome forward contracting fears by doing it for them at a reasonable cost."

• "Have a program where feeders bought at a certain price can lock in a profit when sold, with feed and supplementary prices locked in."

Availability of sophisticated marketing services was the greatest concern of producers. A second concern, indicated to a much lesser extent, was the enthusiasm displayed by the staff:

• "There are people in the organization that are not top people in their field and seem to take their job for granted and are lackluster in their attitude."

• "Don't let staff and management stay around that are 4 or 5 years from retirement and just doing their job the same old way they have for 20 years."

Auction cattle are inspected by prospective bidders. (Photo courtesy Livestock Marketing Association)

• "The marketing function is primarily a service function. Few producers see it as a controlled supply function. Salaried cooperative personnel have a hard time getting up the enthusiasm that for profit people do. Most farmers see no savings in operating costs by marketing through the cooperative. Therefore the livestock cooperatives must control enough of the supply to affect price or give a level of service good enough to attract the business."

When producers personally knew a manager or other employees by name, and felt comfortable asking questions about marketing, they were much more likely to feel positive about cooperatives as reflected in the number of positive comments per respondent. Of course, this result is not surprising, but it does illustrate the potential for improving participation in cooperatives by increasing the visibility and accessibility of staff.

Compensation of employees was a third concern, also indicated to a much less extent than marketing expertise.

• "Don't spend so much on staff that cuts into price for livestock."

Competitive marketing in the auction ring.
(Photo courtesy Livestock Marketing Association)

Electronic auctions do not require visual inspection of cattle during the sale.
(Photo courtesy Equity Livestock Sales Cooperative)

• "If it is truly a cooperative it should be run as such. Auction fees seem excessively high. More should be returned to the patrons and not so much to employees, especially if there are high profits."

• "When we work hard and see people standing around making more money per year than us with no investment, it's hard to take."

These comments, and those of industry observers, suggest a perception exists that livestock cooperatives are not "lean," that they sometimes retain too much, too inefficient help. In this context, cooperatives are viewed as existing for the benefit of employees, not producers.

Once the livestock producer decides to market through a cooperative, the price received (buyer competition), and the quality of the staff and facilities determine how satisfied the producer will be with the services rendered and also the extent to which producers think they can duplicate the service. Cooperatives will be poorly positioned for the future if they are seen by producers primarily as physical handlers of livestock. Review of the reasons given for marketing through cooperatives indicates that, in many cases, staff had more expertise than producers themselves.

Maintaining, developing, and *emphasizing* expertise with sophisticated marketing strategies and developments in the livestock industry will be the greatest challenge facing cooperatives in the future. Organizations marketing services are really selling the expertise and skill of their staff. Because organizations providing services are highly people-intensive operations, they have an enormous quality control problem.[15] Evidence suggests cooperatives are not an exception.

LOCATION STRATEGY

Impact of Convenience

Middlemen provide convenience. Convenience can be defined in terms of (1) location, (2) the speed and certainty of completing a transaction, and (3) the variety of choices or information provided by middlemen.[16] The member survey showed that each of these dimensions of convenience was important to producers, and each has implications for the future role of cooperatives.

Probably the most fundamental aspect of the convenience associated with cooperatives is location of the marketing

facilities. Many producers listed the terms "location" or "convenience" as reasons for marketing through cooperatives without any further description. These terms may be another way of saying "trucking cost" or "time spent marketing" is reduced or "immediate gratification of want" occurs through a handy way of selling market-ready livestock.

Four approaches to distribution of livestock marketing services are (1) an exclusive distribution strategy, where services are offered at only one outlet, (2) a selective strategy, focused on a small number of outlets, (3) an intensive approach, where a cooperative maximizes market share or member service by acquiring as many auction or market locations as possible, and (4) onfarm marketing. In 1985, 12 cooperatives operated 60 auction markets and 87 hog buying stations, which strongly suggests two-thirds of the cooperatives have followed an intensive strategy.

Intensive distribution meets members' needs for convenience. Location also serves as a surrogate for personal contact and solicitation to use cooperatives, an especially important consideration, given the size of cooperatives' membership. The volume of livestock produced prior to 1980 probably justified and reinforced this approach. However, an emphasis on many convenient locations increases vulnerability to competition. As a result, firms emphasizing convenient locations typically limit themselves to whatever business happens to come their way.[17] When the firm must have many locations for apprecible market share, less incentive exists to develop the market or provide information to patrons. Service providers that relied essentially on the buyer seeking out the seller, have been observed to have minimal, knowledge of ways, and substantial lack of ability, to identify market opportunities.[18]

In general, organizations marketing services are vulnerable to high labor costs. When a cooperative has many locations, labor costs increase, especially if each location requires a branch manager. Declining livestock volume has already led some cooperatives to convert staff to part-time, shift them from one location to another according to the auction schedules, and require a branch manager to handle more than one facility. Such tactics utilize staff more efficiently, but the overhead on each location continues. Auctions are not necessarily used on a daily basis because of the need for cleanup and maintenance after a sale has been held. (Using facilities more than 2 days per week or having one facility cover 10 counties were mentioned in the survey as ways to reduce operating costs.) Occasionally, an area packer will, for a fee, use the overcapacity of the yards for livestock assembly. However, such arrangements do not substantially reduce the problem of auction overcapacity. This situation confronts many service organizations as a problem of matching service capacity to demand.

Because the appearance of the market facilities serves as an indicator of the quality of the marketing services, outmoded or substandard facilities can suggest use of a marketing agency is an old-fashioned idea, compared with marketing direct. Many facilities drain a cooperative's resources for maintenance or repair. These considerations will increase in the future as livestock production decreases or concentrates in those producers who prefer to market direct, and also as cooperatives develop more programs for onfarm sales.

Perceptions of Buyer Competition

Repeatedly, survey respondents indicated they wanted market forecasts to specify profitable days to sell:

- "Earlier market information so we know what we're going to get the day of the sale. We don't sell our grain without knowing what we're going to get. Why should we sell our livestock without knowing?"

- "Tell us what time of the year would be the best market for our animals."

Although producers do not like taking animals to market and finding the price is unsatisfactory, a marketing approach of maximizing facilities may be incompatible with telling them prices will be lower over the next few days. With a central or select few facilities as an operating base, a cooperative can satisfy producers' needs for such information because volume will be forthcoming regardless of market forecasts. Moving toward more onfarm marketing also facilitates sharing forecasts with producers.

A marketing strategy of emphasing location may be responsible for the perception among industry observers that cooperatives *as a group* lack an aggressive marketing approach. This perception may arise from the fact that livestock cooperatives have been based on the concept that producers bring stock to the facility for marketing. Consequently, the cooperative itself is perceived as passive. Another reason is limited buyer competition, identified in the member survey specifically as a lack of

aggressiveness by cooperatives. When prices are inadequate, the producer blames the cooperative:

- "The survey mailing included a check for two calves for a stated amount. Granted the market is soft but this is ridiculous. I feel I get "ripped off" every time I send an animal. I don't feel [the cooperative] is doing anything to help me market my animals effectively. Therefore I feel no commitment toward the cooperative."

- "How the cooperative can work more closely with me as a producer is a good question. What efforts has the cooperative made to locate buyers to increase demand at sale?"

Allowing an order buyer to, in effect, act as one buyer for 6-8 packers rather than have the packers bid against each other was also criticized in the survey.

The viewpoint expressed in the survey conflicts with evidence available from interviewing two packers (representing several plants) who regularly bought from five cooperatives. All procurement directors perceived cooperatives as aggressive, prompt in making daily telephone calls to determine demand, and generally willing to accommodate the plant's particular requirements.

Trade-offs Between Convenience and Buyer Competition

Managers said prospective users wanted concrete proof that selling through the cooperative would be more profitable than selling direct. Yet, like all services, cooperative livestock marketing services and producer benefits are intangible. Producers are not buying higher prices when they use the cooperatives, they are buying the *promise* of higher prices. Because services are intangible, there is considerable uncertainty associated with use. Cooperatives cannot be vocal about the benefits of using a marketing agency compared with selling direct. Nevertheless, cooperatives can offset the intangibility of their services, and thereby reduce producer uncertainty by maximizing the number of buyers through a selective distribution strategy. A large number of buyers is tangible evidence that an intangible service is likely to be performed well.

According to the survey, members used cooperatives because of convenience and higher prices. The ideal situation, according to some respondents:

- "Offer more collection points which could translate into higher prices for both cattle and hogs."

- "They should keep the local branch open and try to pay competitive prices."

- "Open more markets. Higher prices are nice but you can only truck hogs so far for an extra 25¢/cwt."

Yet, anticipated future reductions in production and packer numbers suggests most producers will probably find they must choose between higher prices and convenience. Indeed, this situation already exists at some market locations, according to the survey:

- "Try to recruit buyers in larger numbers for auction market sales to improve prices for certain classes of hogs and cattle which may only have one or two potential buyers at the auction."

- "A person gets the feeling that one buyer will take one and the next buyer will get his."

- "The cooperative needs more buyers. Auction service sometimes wakes up crowd by selling animals cheap. I feel sorry for the producer (victim) that sent that animal."

- "I sometimes wonder why you get a good price for a calf one week and the next week ship a calf that is just as good and get almost nothing for it."

- "Give the producer more control over the price the producer receives for his cattle. Many times it is fair but when our cattle go on the truck we have no say in a fair market value. We have to take whatever the buyer offers and that is sometimes much less than the fair market value or worth of that animal."

- "I think volume of livestock marketed though the cooperative will decrease because of competition and variance in price from one day to the next. At times it seems like buyers take turns buying. Some play cards downstairs while others bid, then rotate."

- "Try to control monopolistic practices by buyers. Allegedly some work together to drive out new buyers by outbidding them until they quit. Then they have the market to themselves. It helps the market temporarily, then depresses it."

• "Try to have more buyers and buy more cattle yourself like the stockyards does. Some cattle go too cheap, you should not let that happen, you should have a place to go with them yourself."

Cooperative Options

There is also some awareness of the corresponding changes that must be made:

• "Have to haul my hogs 20 miles to market. Wish I had a closer receiving point to do business. Also realize this will probably increase the cooperative's costs and overhead."

• "From one farm to three cooperative markets all within reasonable distance is ideal, but I question if costs could be controlled better if there was one bigger market and also if this would attract more buyers."

In response to inadequate buyer competition, several cooperatives purchase livestock themselves for resale later. Others do not because the cooperative then bears the price risk, not the producer. Transfer of the risk to the cooperative can generate profitable opportunities for the cooperative but can also jeopardize its survival.

Large volumes attract buyers. The member survey indicated high prices attract producers. These factors support a policy of selective distribution. Implementing this approach will result in painful and slow adjustment as employees are terminated or reassigned, cooperatives try to sell excess facilities, and producers lose market access. The alternative appears to be a loss of market strength by increasing costs. The recent history of livestock cooperatives suggests the response to increasing costs will be a slow attrition of cooperatives' facilities and services, which will leave them in much worse position than if prompt preemptive action had been taken.
Cooperatives are especially vulnerable to subjectivity in the decision to acquire or close a market location because of their mandate to serve producers by providing market access.

Although terminal markets are an example of an exclusive distribution strategy, steady declines in livestock marketed through terminals suggests location is no longer a strong advantage, and may even be a disadvantage that must be compensated for by emphasis on other aspects of convenience.

Of course the ultimate convenience to producers is having the livestock sold on the farm:

• "(With the cooperative's beef feedlot sales) system, I have a representative that has a better idea of the value of my cattle on the market than I do. I rely on him to protect me. Secondly, I don't have to pick a day to ship and take whatever the market is that day. We work together over a period of weeks to get the best bid. It is easier to say no when the cattle are in my lot than at a terminal or packing plant."

REVIEW OF MARKETING COSTS

Importance of Marketing Cost Comparisons

Organizations marketing services generally lack data on competitive performance and, therefore, cannot readily monitor marketing costs. Like other organizations marketing services, livestock cooperatives informally share some sales and cost information through industry meetings such as the National Live Stock Producers Assn., or Farm Bureau Livestock Study Committees. The most recent study of costs and margins for livestock marketing agencies (and other industry participants) was published in 1960.[19] Both the National Live Stock Producers Assn. and the Farm Bureau could have a significant impact on livestock cooperatives by sponsoring an update of such research. It could assist cooperatives by answering the following questions:

• What significant interrelationships exist within marketing expenditures and how are they related? (For example, how do newsletters or other promotional expenditures affect overall sales costs?)

• Is there an optimal range for marketing costs in total or for any one segment (such as a region or market class of livestock)?

• What are the relative costs and efficiencies of various marketing mixes? (That is, how do expenditures on field sales compare to auction or electronic marketing? Are there circumstances that limit freedom to change the marketing mix? To what extent can terminal or auction-based cooperatives adopt onfarm services?)

• Are there significant variations in marketing costs? Do they relate to economic trends or particular industrial conditions? Are they predictable?

Obviously, no one best set of marketing costs exists. But, for any particular locale, marketing costs should be similar, if not identical.

Comparison With Other Sellers' Charges

Survey data highlighted producers' concerns about marketing costs. Survey respondents suggested cooperatives' charges are not necessarily competitive with other auctions or methods of marketing livestock. Industry observers did not know if marketing charges from auctions in the same locale would be essentially the same. This issue is important because marketing costs represent the price of the marketing service, and can therefore be used as a competitive tool to attract producer business. Marketing charges that are high relative to competitors may suggest inefficiency, or a greater degree of service. Without indepth study of the services offered by cooperative and independent marketing agencies, it is not clear which situation applies. Survey comments did not associate higher costs with greater service.

Marketing charges are also of interest in the context of the total number of auctions operated by a particular cooperative compared with the number available statewide. The member survey suggests cooperatives compete on the basis of location, not necessarily the price of the marketing service.

Cooperatives with multiple auctions do not differentiate marketing costs by location. Because certain parts of a State may generate greater volume, some cooperative auctions may be subsidizing others not as well located. The auctions with less volume have higher operating costs on a per-unit basis so these charges should be higher. Consequently, it is possible cooperatives with many auctions have higher overall marketing costs relative to competing auctions.

Locations of cooperative and independent auctions were plotted by county for four States containing a total of five cooperatives. Auctions were chosen for comparison if they were in the same or adjacent county as a cooperative auction, or if the cooperative considered a particular auction a major competitor. For two States, cooperative auctions were each compared to six independents, and for the remaining States, eight and nine independents.

Because many of the tariffs are based on a percentage of the value of the livestock, hypothetical loads were developed for each of the four States. Market news reporters suggested the approximate value and some appropriate market classes for each State. These loads corresponded to the type of livestock that is frequently marketed through the State's auctions, plus one or two arbitrarily chosen market classes, like bulls. Loads were chosen to capture the variety of livestock going through the auctions, not to represent what an individual farmer might bring to the sale. The loads also included more than one animal of the same type to reflect volume discounts available through the cooperative.

The analysis showed marketing charges are quite variable among auctions. For each of the four States, calculated marketing costs ranged from $46.10-$70.00; $32.06-$46.46; $50.00-$95.45; and $39.75-$57.60. Statistical tests of similarity of the charges were not conducted because it was assumed an individual livestock producer would seek out the auction with the lowest charges, other things being equal.

Overall, marketing charges based on hypothetical loads supported survey evidence. The analysis suggests cooperatives may need to deemphasize competition on the basis of location in favor of reducing marketing charges. For the five cooperatives studied, complaints about marketing costs increased with the number of auctions operated by the cooperative. Only 2 percent of respondents complained about costs for the cooperative operating the lowest number of auctions; up to 80 percent complained about those with a greater number of auctions. The analysis also showed it is possible for a cooperative to be very competitive if it limits the number of auctions. The cooperative with the lowest number of auctions had lower marketing charges than seven competing auctions, out of eight selected for analysis.

Another example of this policy is provided by Southeast Mississippi Livestock Producers Assn. The services of this cooperative are quite limited, primarily board sales, and one auction. The cooperative competes by providing a patronage refund every year. Over the 1978-85 period, $3 million was refunded. Most cooperatives were unable to offer patronage refunds and lost membership over the 1980-84 period, whereas membership in Southeast Mississippi increased from 2,000 to 6,000 producers.

Timing of Transactions

The importance of location has been clearly identified by the member survey. However, cooperatives are also affected by the other dimensions of convenience. The

survey showed providing adequate "lead-time" for producers to respond to bids, developing and adhering to a schedule for sales, and other aspects of the speed and timing of transactions are important to members.

As the number of part-time farmers grows, services will need to be offered during extended hours, 6 or 7 days per week. Determining scheduling of marketing services will be critical for livestock cooperatives in the future, as the dispersion of livestock production increases. Greater coordination between producer and cooperative (for example, marketing agreements and closer monitoring of livestock as they become ready to market) might enable cooperatives to smooth demand levels to match capacity.

Completing the Transaction

Private treaty sales, auction sales, and electronic auction sales are the services of livestock cooperatives where certainty of completing the transaction is an issue. Other services like order-buying or hedging may not necessarily be completed, but the risks of not locating desirable livestock or meeting margin calls are probably accepted among producers because no complaints were received in the survey.

The importance of private treaty sales is expected to diminish in the future. Industry observers have suggested it is costly for cooperatives to sell one or two cows by private treaty in the time required to run an auction. Private treaty sales also do not meet the procurement needs of packers who prefer merely to pick up the telephone to order. They want to be certain of completing a transaction that will give them sufficient kill before competitors have locked up available supply. While such convenience is not easy to obtain for those with special needs, it is a desirable objective.

According to managers, "selling private treaty is a service to our members. All farmers think their produce is different and it also is difficult to co-mingle cows." Such considerations make private treaty sales difficult to terminate, especially when the cooperative conceives its role to be primarily an assembler and seller of livestock. Yet, this particular emphasis on providing personal service to the farmer disregards the importance of the packers' procurement needs, and ignores the relationship between marketing costs charged to producers, and the actual cost, including staff time, of providing the service.

Inability to standardize and separate the fixed and operating costs of providing a service is a common difficulty of organizations marketing services, especially when several services are produced concurrently by the same organization. As a result, the average costs of producing a unit of service are essentially unknown, and then it is hard to determine what the selling price should be.[20] Replacing private treaty sales with onfarm sales and electronic marketing, and limiting the number of auctions with weak buyer competition, should limit producer and packer dissatisfaction.

ADVISORY AND INFORMATION SERVICES

Scope of Cooperative Services

Since 1970, considerable experimentation in services has occurred among cooperatives. Continued instability in the meatpacking industry and shifts between livestock and crop production suggest this trend will continue. Electronic marketing, foward pricing services, custom cattle feeding, and country sales for hogs are areas where cooperatives have had mixed success. Personalized market planning for producers (determining a unified production and marketing strategy) occurs informally, and perhaps also infrequently, and is not considered to be a direct revenue-generating service of any cooperative studied. Price forecasting and livestock marketing seminars may be offered as part of an annual meeting, but are also routinely beyond the capabilities of most cooperatives.

Changes in the service mix highlight an ongoing concern for cooperatives. Under what circumstances should they offer more than the traditional services? Should cooperatives concentrate on traditional services and forego costly experimentation?

Study of organizations marketing professional services suggests that firms may need to expand their range of services for several reasons. First, return on a single service may be low, yet make a considerable contribution to the marketability of other services. Second, offering a full range of services may improve the image and therefore the competitive position of one firm against another. Third, additional services may also make the service company more credible in its existing or potential markets.

As is well known among cooperative managers, new livestock marketing facilities or services usually are not immediately successful. Adverse financial conditions in the agricultural community are expected to continue for

some years, altering the time a cooperative can sustain a new service or location until it becomes profitable. Lack of coordination among cooperatives can also shorten the life of an experimental service. This is indicative of the extent to which survival has become the focus for many livestock cooperatives, and the basis for survival is traditional services. There simply are not enough packers to allocate between new or experimental services and traditional marketing methods. Consequently, a need for consistency in the services must be evaluated along with the desire to offer a wider choice of services.

Expansion to country sales or electronic marketing, or contract sales to individual packers draws volume away from the terminal market or auction facilities. This situation can raise operating costs substantially because volume is already less than optimal at many yards. Employee resistance to such changes generates conflict within the cooperative over its proper role. When the cooperative resists innovation, detractors can say with some justification, that the cooperative hasn't kept up with the times, or is run for the benefit of employees. The short-term advantages of preserving the status quo encourage a lack of long-range strategic planning and weaken the opportunity for managers to display needed leadership.

As a result, unless livestock cooperatives can devise a framework to coordinate services and minimize competition among themselves, they will be poorly positioned to offer much more than the usual livestock assembly and selling. Many producers market through cooperatives because more buyers can be assembled. If the number of buyers diminishes through consolidation of the packing industry and other structural changes over which cooperatives have no control, producers may not continue to patronize the cooperatives. An alternative is to offer services less dependent on packer numbers.

Need for Advisory Services

About a fourth of the respondents from each cooperative desired more contact from their cooperative by a newsletter, and up to a third wanted personal contact from farm visits, small-group meetings in each district, or a toll-free telephone line. Personal contact or newsletters offer the cooperatives an opportunity to demonstrate marketing expertise and sophistication to producers.

But there are problems with instituting farm visits or newsletters. Most cooperatives have several thousand members so personal contact ''when the cattle are ready to market,'' as desired by many respondents, is not always feasible. Moreover, even if the staff of the cooperatives visits farms, they may not necessarily be permitted by producers to market the livestock because packer-buyers also routinely monitor available livestock. Consequently, farm visits may be a costly and unreliable method of soliciting business. Anticipated declines in livestock production will increase the cost of farm visits by increasing the distance between farms.

An alternative to visits noted in the survey was small group seminars on livestock production and marketing issues held periodically throughout the marketing territory. The consensus among managers and most industry observers was that producers would not pay for either personal visits or seminars. Yet, the survey shows there is an unmet need for more intensive and personalized marketing information.

Experiences of Farm Supply Cooperatives

Some cooperatives and Farm Bureaus have already begun to respond to such needs among crop and dairy producers. The AgriVisor program of the Illinois Farm Bureau provides market information and targets optimal transaction dates. Servi-Tech, an agronomic service regional cooperative at Dodge City, KS, provides personalized livestock and crop production services. The livestock program includes collecting and testing feed supplies, computerized budgeting and formulation of feed rations, regular visits to the feedlot, farm, or ranch to review management and livestock performance, assistance in quality control of feed ingredients, and recommendations for improving the profitability of the livestock operation. The Centrol program, operated by local farm supply cooperatives affiliated with Cenex in St. Paul, MN, provides onfarm consultants for farm management, agronomy, and animal science.
Three seminars on production marketing or financial management are also provided each year. The service is tailored to farm size. The full service option calls for at least 12 visits yearly at a cost that varies according to herd size.

Each Centrol is a cooperative owned by local farm supply cooperatives. The program started in 1979 when 12 cooperatives contributed $5,000 each to start a farm management cooperative with a staff of five. The Centrols are tailored to fit local agriculture, which keeps them small and decentralized.

Advantages of Advisory Services for Livestock Cooperatives

The method of pricing and the extent of the services provided are key advantages of the Centrol approach. The Centrol program aims to lower producers' cost or increase efficiency to more than offset the cost of the service. In contrast, the costs of the marketing activities of the livestock cooperatives are clearly perceived as marketing charges.

As the number of meatpackers and producers declines, such perceptions will continue to grow and affect the volume available to the cooperatives in a volume-oriented industry. Industrywide, there has been a loss of confidence in and an increase in uncertainty about the value of marketing agencies. In general, uncertainty can be triggered by a totally new situation, or by a loss of confidence in an existing or previous solution. The task for the marketer of services is to decide whether to restore confidence in the old solution or complete its demotion through promotion of a new one.[21]

The emphasis of livestock cooperatives has been to promote confidence in the "old solution", marketing based heavily on facilities. Appeals in this direction have been focused on emphasizing to producers the importance of a competitive market system to establish prices. Both the survey results and the growth of direct marketing demonstrate that the emphasis of producers is efficiency. Moving livestock directly from the farm to the end user is seen as less costly and time consuming. Excess capacity in marketing facilities nationwide and diminishing number of buyers means that so-called competitive markets are not necessarily competitive. Therefore, the challenge for cooperatives in the future will be to shift away from a single- minded emphasis on competitive markets to correspond to the shift in attitudes by livestock producers.

The growth of agricultural advisory services and other personalized programs indicate one of the key ways cooperatives can serve the producer of the future is to reduce uncertainty. The programs described are primarily offshoots of agronomic services of farm supply cooperatives. These cooperatives are extending their expertise into livestock from a strong crop production base. If livestock cooperatives were to develop similar programs, they would have to hire additional staff with greater expertise in production and financial skills.

Revenue for such programs would probably come from a change of emphasis in the cooperative, such as closing some marketing facilities.

A changeover from variations of livestock assembly and selling to advisory services will also require a philosophical change in direction for the cooperatives. Generally, a mark of accomplishment among livestock cooperatives is acquisition of another auction or hog buying station. To invest in a new operation, the cooperatives would probably have to forego acquiring some additional facilities, sell some facilities, or pool resources.

Traditionally, the cooperatives have focused on volume oriented services. If the volume will not be there in the future, it is clear cooperatives will have to serve their existing clientele more intensively. Consulting services in the form of combined production, marketing, and financial management plans offer one option to meet this objective. Cooperatives may also want to implement advisory services to preserve their clientele. According to a 1983 evaluation by USDA on the characteristics of farmer cattle feeding, "Farmer feeders rarely use formal marketing strategies to reduce risks."[22] Consequently, they are especially prone to adverse price changes that limit cattle feeding.

Considerable potential exists in this group to expand use of futures markets. According to the report, farmer feeders assumed virtually all of the price risk in 1980. "Only 1 percent of all farmers forward priced cattle at least 30 days prior to delivery to a packer, and only 1 percent of all slaughter cattle were involved. The futures market was similarly little used. Only 2 percent of all farms hedged 3 percent of the total cattle fed. Farmers operating the smallest feedlots made no use of either of these methods to reduce the risk of adverse price changes in 1980."[23]

Profitability is also affected by recordkeeping. The survey indicated producers want assistance in developing and interpreting production records.

Cooperative Experience in Country Sales

Livestock cooperatives do have experience as marketing consultants. A primary benefit of country cattle sales programs is the advice given to the feeder on how long to hold the cattle, based on direct knowledge of the feeder's

operation from feedlot visits. Packer-buyers lack the objectivity of the cooperative. In this context, the cooperative isn't selling "market access," so much as information. Having access to information and knowing how to interpret it is a large part of risk management.

Cooperatives have encouraged participation in country sales programs by focusing on the additional bids obtained by the use of a country sales representative. Anticipated declines in the number of packers increase the likelihood that prospective users will believe they can duplicate the cooperative's services themselves. Country sales programs have, in fact, been vulnerable to this situation. Broadening the sales program to provide financial and other advice (as requested) would give the country programs a stronger basis for survival than a continued narrow focus on selling.

By meeting the producers replacement stock requirements (which cooperatives already do through order buying services), providing financial advice (available through the credit corporation and futures departments of cooperatives), and adding production expertise, the cooperatives are more strongly positioned to maximize the producers' income than if they were to continue to focus on generating selling opportunities. It is necessary for such planning to be done on a one-to-one basis because the amount of risk or investment each producer will accept is an individual decision.

Extension Service marketing specialists have been a key source of this information in the past. A 1984 article in a national farm magazine predicted that in the future, Extension Service specialists would act more as consultants to farmers, "providing individual sessions to to discuss such things as setting price objectives, hedging programs, and specific recommendations pertaining to sales decisions." But it is not clear that, in an era of fiscal austerity, specialists will be able to provide personalized services to farmers. This is a niche livestock cooperatives could fill. A livestock cooperative has a singular advantage over farm supply or other cooperatives in that it offers the option of cash sales and credit services. Moreover, auction sales and other marketing activities put livestock cooperatives into livestock markets daily. They can thus speak with an authority and credibility not available to other firms about packer requirements and market trends.

OTHER ROLES FOR COOPERATIVES

Promotion of Cooperative Services

Livestock cooperatives should learn how to promote their services more effectively. Organizations offering services typically lag manufacturing firms in their development and use of marketing.[24] By contrast, manufacturing firms have grown and prospered in accordance with the attention they have given to promoting themselves and their products. For these firms, the maximum efficiency in promotional expenditures is not necessarily at the minimum expense level.

In product marketing, advertising helps to shape consumers' expectations. Because services must be experienced to be effectively evaluated, consumers rely to a considerable extent on personal sources of information when considering use. "Word of mouth" reduces the risk that is associated with use of a service. Indeed, "word of mouth" has been the primary way livestock cooperatives have promoted their services, according to the managers in the survey.

Has "word of mouth" been effective for livestock cooperatives? Do members know the full range of services offered by their cooperatives? Evidence from the producer survey indicates the answer is probably no. One of the more common responses to the question, "How can the cooperative increase membership or volume of marketings?" was, "Advertise its services." One respondent wrote, "Advertise. I didn't know livestock was sold in x-y-z town until a friend told me."

Advertising has been minimal among cooperatives because they perceive that it is costly and that "word of mouth" is sufficient, and because they emphasize livestock assembly and selling, especially auctions. Most people in a rural community know where the auctions are located, so advertising seems unnecessary. However, this approach neglects the contribution made by supplementary services to the overall service mix and to the income of the cooperative. For example, hedging tends to be a more profitable activity for a cooperative than traditional services. Moreover, the survey indicated producers do not understand futures markets sufficiently to be confident about use. Contract terms vary among marketing agencies, brokerage houses, and packers. Differences in load size, basis, dates and sites of delivery, quality of acceptable livestock, etc., affect the profitability of the contract for the producer. Consequently, cooperatives are

uniquely positioned to offer contracts in the producers' interest. The potential to assist producers could be increased by advertising hedging and other supplemental services by posters at the marketing facility and by suggestion selling from employees.

Acquisition of Commission Firms

Livestock cooperatives at terminal markets have focused on gaining market share by buying other commission firms. This requires a special approach to promotion. Such cooperatives must determine if the acquired firm's staff and other resources should be submerged into the cooperative or if a separate, competing identity should be maintained. This issue is familiar to manufacturing firms that evaluate a single brand name for all their products.

A multibrand, or, in the case of cooperatives, "multifirm" approach creates internal competition that develops excitement and efficiency. This result is the primary reason some cooperatives acquiring commission firms over the 1984-86 period have maintained the firm's original identities. A multifirm approach appeals to producers who, as a matter of course, like to try different commission firms. Also, each firm targets different types of producers or market classes of livestock, such as those who like firms with a strong cooperative identity, and those who do not.

The multi-firm approach also has drawbacks because each firm may get only a small share of the market and, consequently, none are particularly profitable.[25] Because resources have been spread over more than one firm, none get all the resources needed to reached a highly profitable level.

Cooperative Image

The uses of promotion include:[26]

(a) image development (size, reputation, or experience) of the whole company

(b) image development of specific service

(c) promoting the service as a technique irrespective of which company provides it (concept promotion)

(d) selling the company's services

(e) building up an atmosphere conducive to sale of the service

(f) selling a cluster of supporting factors, not the basic service

(g) improving the level of customer knowledge of service

In relying on word-of-mouth advertising, cooperatives do not assume an active role in shaping producer perceptions or educating producers about service or "cooperatives" as marketing tools. As the survey results point out: "many people are unaware that (the cooperative) is a marketing cooperative. It is viewed simply as another livestock auction. The public should be made aware of local directors, management, financial conditions, commission charges, and other information that would let them know it is an honest, legitimate producer-owned organization."

The low profile maintained by cooperatives undermines efforts and expenditures to raise meat consumption (via donations to the Meat Board for example), promote competitive marketing, etc.

Study has shown that those who purchase intangible products such as services are seldom aware of being served well.[27] To keep these patrons, it is necessary to regularly remind or show them what they're getting to offset the occasional failures. "Word of mouth" is not sufficiently powerful to accomplish this.

A special case is illustrated by electronic marketing. Electronic marketing was mentioned only by a handful of respondents, despite formidable cooperative attempts to test and implement such markets. Between 1975 and 1986, electronic markets were developed by the following cooperatives: PLA (hogs) Equity (sheep, hogs,) PLMA (cattle), PMA (cattle), and Texas Livestock Mktg. Assn. (feeder cattle) Widespread acceptance of electronic markets for sheep, in particular, suggests that this result may be a weakness of the promotional programs of cooperatives more than an indication that members have little interest in electronic marketing.

Membership Structure

Educating members about cooperative benefits may require changes in member relations programs. Two causes of the weak link between members and the cooperative are the size of the cooperative's membership (from several hundred to several thousand producers), and the type of service rendered. The service of marketing livestock is not necessarily perceived as adding value to the livestock (as in converting milk to cheese, for

example). This perception suggests cooperatives must educate members about the contributions a marketing agency makes to the overall marketing plan of a producer, or shift to an activity that is perceived as making a monetary contribution to the livestock enterprise.

The centralized membership structure of cooperatives hinders feedback from members. Only one cooperative (Equity) has a decentralized federated structure, where producers are members of shipping associations that are also members of the cooperative. Another cooperative, Central, has a mixed structure of shipping association membership and direct producer membership. The remainder have direct producer membership. The decentralized structure of Equity's 48 shipping associations facilitates greater contact with members because the directors of each association have less of the State to cover. Among cooperatives surveyed, Equity had the lowest demand for increased member contact.

Role of Directors

For all cooperatives studied, membership requirements were virtually the same. Following is a typical membership (Producers, Omaha) bylaw:

Members are those persons who as individuals, partners, corporate or associate administrators, have patronized Producers Livestock Marketing Association in the buying or selling of livestock within the past two years and therefore have automatically become members.

An alternative to changing the cooperative's membership structure is greater reliance on advisory committees of producers in each market class or marketing territory of the cooperative.

Generally, directors are expected to serve as "models" of cooperative support. As producers, directors share the belief that the return to the livestock enterprise (farm or ranch) should dominate other concerns. From the member survey, it is not clear that directors routinely market their livestock through the cooperative. Such occurrences may be isolated incidents, but they undermine support for the cooperative. None of the cooperatives have marketing agreements with members and it may be advisable for both directors and members to have such an agreement.

Directors and members of advisory committees can facilitate support for cooperatives by holding small group meetings in their homes or visiting area producers to encourage cooperative marketing. The latter approach has been used by the Iowa Farm Bureau to generate participation in its country cattle sales program.

More than a third of members surveyed wanted more information about cooperative principles or better member relations. Members were especially vocal about the need to increase director turnover.

Role of Affiliated Organizations

The prevailing belief among managers and others was that cooperatives control a significant volume of livestock and represent a significant number of livestock producers. Nevertheless, the current fragmented approach by cooperatives to industrywide or regional issues of concern precludes optimal use of the marketing or political "clout" suggested by volume or membership. As a group, livestock cooperatives can't achieve substantial and enduring visibility for "cooperative" marketing because they are not unified by a single umbrella organization.

In general, the operating philosophy of virtually all livestock cooperatives has been to serve everyone equally and to emphasize an individual (not joint or shared) marketing identity. But cooperatives pay a price for their independence. The basic reason for the existence of the cooperatives is to provide greater market power, and they cannot do this in isolation. For an individual cooperative, volume is almost always insufficient to offset the combined buying power of packers. Individually, none of the cooperatives is able to generate all the market intelligence needed to respond to the future needs of producer-members.

Some cooperatives rely on the National Live Stock Producers Association, the Farm Bureau, or the Livestock Marketing Association (a trade association of livestock auctions and dealers) to provide specialized assistance. From the cooperative standpoint, lack of coordination or duplication of effort by the Farm Bureau and the National Live Stock Producers Association (NLSPA), reflects the overall lack of coordination and focus among livestock cooperatives themselves. Cooperatives bear the cost of redundant sources of market information, financial services, education, lobbying, and promotion. Greater unification is limited by a number of factors, among them membership fees. Membership in any one organization usually depends on a cooperative's volume, and can range from a relatively small to a large amount.

Possible responses to this situation are a "menu pricing" approach where a cooperative pays for only those services actually used or desired, or a very low cost trial period of membership. Umbrella organizations important to livestock cooperatives should devise a two-or three-tiered membership structure of essentially separate meetings of managers, employees, and producers that will enable outside cooperatives to participate, especially on the managerial level. Regional "no frills" meetings of managers appear to have the greatest probability of providing immediate benefits in the form of feedback from others who have encountered similar problems.

Cooperatives in the Western and Southern States marketing primarily feeder cattle share problems that are different from those marketing hogs and cull dairy livestock. Given the substantial and diverse membership of cooperatives, national meetings oriented toward producer or employee participation (valuable as these may be), appear less likely to meet the needs of all cooperatives for a forum to allow leadership and new ideas to emerge. Success on a regional level will carry over into the national level, but the opposite is not likely to occur (although it has in the past) because of the severe financial constraints on virtually all cooperatives.

The Livestock Marketing Assn. (LMA) has a network of 10-12 representatives that call regularly on livestock markets. Livestock cooperatives have generally relied on semiannual meetings of the NLSPA or the Farm Bureau to identify and solve common problems. However, evidence suggests the need for a more focused effort through visits to troubled cooperatives by advisory teams of managers, financial experts, and other specialists. Such an approach would be similar to that of LMA but oriented toward cooperative marketing.

INDUSTRY OUTLOOK AND COOPERATIVE ADJUSTMENTS

Industry Perspective

Industries and their customers can be broken down into characteristics reflecting the general market environment, the type of customers served, and the corresponding promotion and degree of product (service) specialization. Each of the characteristics can be viewed as a continuum (See fig. 9). For example, the orientation of livestock cooperatives when they were formed was toward a mass, or volume market, for customers seeking very similar or homogeneous benefits. The opposite would be a highly segmented (individualized) market where customers seek heterogeneous benefits. The market environment of cooperatives contains dispersed sales facilities in a small trading area, whereas the opposite would be clustered, concentrated, and large. Generally, cooperatives do not tailor or "adjust" their basic services to meet the unique or individual demand of a patron. (Exceptions are private treaty sales and hedging.) The widespread auction facilities of many cooperatives and their competitors mean that the "search effort," or time and distance required to locate and use marketing services, is low.

In the livestock press, the livestock-meat industry has often been called "mature." Probably the overcapacity in marketing agencies and facilities puts the marketing portion of the industry at the saturation point.

The marketing approach of cooperatives is consistent with their clientele, according to this framework. Overall, the marketing environment and the response of cooperatives consistently fall on or to the right of each continuum. The exception is industry structure. At one end are firms described by little or dispersed monopolistic advantage, simple technology, and free or open-market pricing. This situation corresponds to that facing cooperatives when they were initially formed. At the other end of the continuum are firms with strong or concentrated near monopolistic advantages, complex technology, and administered pricing. It is toward this end of the continuum that the livestock-meat industry is heading. To be consistent with the evolving industry structure (following this framework), livestock cooperatives must concentrate their facilities, develop a unique marketing approach for each patron (incorporating auxiliary services), and engage in more direct contact when promoting and distributing their services (as in onfarm sales or advisory services). Appropriate promotional appeals would be educational, oriented toward conveying knowledge to patrons. The corresponding result should be, according to this framework, opinion leader patrons who insist on using the cooperatives to alternatives.

Structural Adjustments

An objective for service organizations[28] such as livestock cooperatives is to design personal contacts and service delivery approaches to teach patrons

(a) when they should seek professional services,

Figure 9. Characteristics of the marketing environment

Highly segmented Heterogeneous	GENERAL MARKETING ENVIRONMENT (demographics, benefits sought)	Mass Market Homogeneous
Concentrated Large	GEOGRAPHICAL CONCENTRATION (Sales, facilities, size of trading area) Clustered	Dispersed Small
High Adjustment	GOODS/SERVICES (FIRMS VIEW) (product specification, auxiliary, services, personal selling)	Low Adjustment
High Search Effort	GOODS/SERVICES (CUSTOMERS VIEW) (specification of need, search distance)	Low Search Effort
Direct	MARKET CONTACT (promotion concentration, physical distribution)	Broadcast
Educational	PROMOTIONAL APPEALS EMPLOYED Competitive	Retentive
Innovation	INNOVATIVE BEHAVIOR Early Adopters Early Majority	Late Majority
Opinion Leader	REFERENCE/OPINION INFLUENCE Early Buyer Observer	Conformist
Insistance	CONSUMER ACCEPTANCE Preference Acceptance	Recognition
Introduction	PRODUCT DEVELOPMENT CYCLE Growth Maturity	Saturation
Concentrated/ complex administered	INDUSTRY STRUCTURE (monopolistic advantage, technology, pricing)	Dispersed/ simple/free

Adapted from: Persis Emmett Rockwood, "An Informal Integration of Marketing Theories and Concepts," in *Theoretical Developments in Marketing,* Charles W. Lamb, Jr., and Patrick M. Dunne (eds.), Proceedings Series, 1980, American Marketing Assn.: Chicago, pp. 262-264.

(b) which attributes to consider in evaluating different providers,

(c) how to communicate their concerns, desires, or other issues to professionals, and

(d) what they can realistically expect providers to accomplish.

Part of the difficulty in demonstrating what to expect is that producers have many sources for marketing livestock. It is very hard for cooperatives providing these services to differentiate from other sources because the services themselves are essentially alike. When asked why he marketed through a cooperative commission firm at a terminal, a producer responded, "I can't answer this because I market with other commission firms at the terminal, and they all seem to do the same job, which is not always satisfactory."

Whether producers are aware of it, the distinguishing feature of the livestock marketing agencies covered in this report is that they are cooperatives. This designation carries special challenges and responsibilities. The member survey indicated many producers are not familiar with cooperative structure and benefits. The large membership and limited financial resources of most cooperatives prohibit extensive, perhaps even adequate, education to increase member involvement. The result, reflected in comments of managers, industry observers, and members, is that many producers do not identify with their cooperative. At the extreme, it is not "their" cooperative, it is just another marketing agency. This situation reinforces the inclination of livestock producers to market wherever the highest price can be obtained.

Overall, producers have little loyalty to livestock cooperatives. As indicated in the member survey, location and prices received are the deciding factors in marketing. The consequence of this situation is that cooperatives, as a group, are in a weak financial position. High prices are not in their control to offer producers. Other marketing incentives like convenient location are easier to provide. As a result, cooperatives may have overemphasized service to producers at the expense of profits. In the absence of formal plans by the cooperative to increase member equity, retained earnings must provide the resources for new programs. Without a turnaround in anticipated future livestock production, facilities and marketing strategies based on volume are likely to do poorly, even fail.

The mission and effectiveness of cooperatives are confused by their mandate to serve producers, their need to operate at a profit, and their reliance on traditional livestock assembly and selling services. It is relatively easy for the latter to be performed to maximize convenience to producers. Much more difficult is operating at a profit, especially given an objective of maximizing service. Cooperative managers differed over the importance of service versus profits. The member survey also reflected this dichotomy: give us high prices, convenient facilities, and lots of farm visits or telephone contact, and also give us lower marketing costs. However, it is not certain that cooperatives can survive by emphasizing service over profits, especially when they have sometimes been ineffective in getting higher prices or a competitive market.

Cooperatives are further weakened by industry emphasis on eliminating middlemen to streamline the marketing system. Industry observers agree that many service firms tend to promote those services that satisfy their own needs rather than those of the client. Some hint that livestock marketing agencies may be outdated institutions and that their demise is only a matter of time.

However, producers will continue to have certain needs livestock cooperatives can meet. The primary need is reduction of uncertainty. Over and over in the survey, members asked, "Tell us how our cattle are doing, what prices will be, and what are the best times to market. Let us know if we are raising our hogs to buyer specifications. Explain futures markets. Interpret price and even production information for us. Give us an objective and expert opinion." These needs will persist and even increase in the future, as livestock markets become "thinner" (market reports and trades are based on fewer and fewer participants) and perhaps more volatile. A need for other services will also include conducting assembly and sales and bargaining, and order-buying of feeder and replacement livestock. (Alternatively, growth in direct sales of hogs and fed cattle suggests sales of cull livestock, and heavy hogs may become the backbone of cooperative sales of slaughter livestock.)

Meeting these needs will require adjustments by producers and their cooperatives. Though most of the needs described are currently met in one form or another, the "packaging" of services will probably change in the future.

What are the options for packaging? They can be classified according to structure (numbers, location, and coordination of cooperatives) and services offered:

1. Maintain the present structure of considerable variation in size, volume, membership, and species orientation. This structure is accompanied by a low and circumstantial degree of coordination among cooperatives. Under this scenario, cooperatives will probably retain their traditional emphasis on livestock assembly and selling. Cooperatives probably will also continue to experience financial difficulty. The number of mergers will increase to match the consolidation taking place in the meatpacking and production sectors.

2. Streamline the present structure through greater intercooperative coordination or merger. Under this scenario, cooperatives with country operations would join with those based in commission firms at terminal markets, or closer ties could be developed among cooperatives operating in the same State or marketing territory. Any arrangement would depend on resolution of several issues, all of which have precluded closer coordination in the past:

(a) the species and market class orientation of the cooperative (feeder cattle, cull cows, slaughter hogs, etc).

(b) attitudes of members toward loss of convenient facilities (possibly offset by greater buyer concentration and efficiency at the remaining facilities that could lead to expansion of some services).

(c) philosophical differences affecting participation in either the National Live Stock Producers Assn., the Farm Bureau, or simply, a preference to remain independent of *any* affiliation.

(d) willingness of members to make decisions about the future of their cooperative before financial adversity has progressed to the point where only merger or other drastic change will insure the cooperative's survival.

(e) willingness of the directors and members to submerge part or all of their personal or cooperative identity into joint efforts with another cooperative.

(f) willingness of directors and members to collaborate on newer forms of marketing (like electronic marketing).

(g) geographical distances between cooperatives.

Farm supply or dairy cooperatives may replace livestock cooperatives in the long term. Protecting feed sales or offering additional services to members provides an incentive for farm supply cooperatives in particular to engage in contracting with producers. On an industrywide basis such vertical integration is expected to increase. Farm supply cooperatives may add livestock hedging or farm management advisory services to their grain operations. One of the difficulties livestock cooperatives have with contracting is cyclical demand, which affects staff requirements. As grain and livestock prices sometimes have an inverse relationship, significant economies may be realized from combining hedging operations.

Industry observers predicted livestock cooperatives would be restricted to operating in those areas where production was sufficiently intense to provide efficiency and income from assembly and sales. Midwest cooperatives were expected to have the most promising future. Cooperatives in marginal areas of livestock production, or those depending substantially on cull cow sales, would suffer from regional changes in livestock or dairy production. Such cooperatives may need to work more closely with other cooperatives to survive.

Services Adjustments

The superabundance of marketing agencies in the livestock industry means the services offered by livestock cooperatives are not differentiated in the minds of producers. Cooperatives must raise the level of expectations about their service above the competitors'. Cooperatives have tried to differentiate themselves by acquiring convenient locations but the member survey showed producers want higher prices and more buyers. This can be done if cooperatives centralize marketing facilities into a few choice locations. The drawback is that some market share will be lost.

Cooperatives based at terminal markets should establish closer links with members, according to survey results, by establishing services based in the country. The survey revealed that terminal marketing had an old-fashioned image. Cooperatives absorb this image as long as their activities are primarily limited to terminals. The primary constraint on new locations for commission firms is capital. Meeting the mandate of members will require an infusion of capital from producers or from affiliated farm organizations. Technical advice from advisory teams of managers or other specialists might improve utilization of

available capital. The history of failed livestock marketing or financial programs suggests inadequate planning for contingencies occurred, situations that might be minimized if available expertise outside the cooperative had been consulted when the programs were designed or implemented.

In turn, the commission firms (and other cooperatives) should support cooperative-sponsored electronic markets. All cooperatives say that "cooperative" marketing is unique in the livestock industry, but many do not support the one type of program that currently differentiates cooperatives from other livestock marketing agencies. Electronic marketing can go a long way toward creating a progressive image for cooperatives. Indeed, image problems may be greater for livestock cooperatives than for many others because livestock cooperatives do not add value to livestock through meatpacking or processing, and they are often unable to return patronage refunds to members.

Expanding financial services and instituting revenue-generating personalized production and market planning for members may also improve the image of cooperatives and increase profitability. Sales calls to individual farms are made primarily to market livestock. The narrow margin on this service means that the full cost of sale is not easily recovered unless the producer can also be encouraged to use a less frequent but more profitable service, such as hedging.

The situation facing cooperatives is similar to that of brokerage houses and other financial institutions that have begun charging for historically free services because competition has forced discounts in commission rates. Free, informal advice doesn't meet the needs of producers, according to survey results. Members expect marketing charges will purchase marketing expertise, and this is not always the case. Cooperatives must provide a staff that can work individually with members, and this additional expense must be covered by those who receive the service.

As with many service providers, cooperatives often blend customized service (i.e., market advice, private treaty sales) with service that is more standardized. The rationale for this approach is the importance of personal transactions in the livestock meat industry. Separating services that can be standardized from those that can be personalized, and adjusting charges accordingly, is a major marketing challenge for many service firms, cooperatives included. Cooperative staff should be divided into professionals, who handle complex, technical issues, and others, who do legwork, solve routine problems, and handle clerical duties. If cooperatives had a small staff to provide technical, customized advice, cross-selling of services would increase, and cooperatives could credibly position themselves as personalized institutions that also offer buy-sell operations. The image of cooperatives is blurred when the employees who run the livestock sales or manage the cooperative are also the primary sources of marketing advice.

Producers in a particular community may be quite alike in size of operation, age, education, and income, but differ greatly in tolerance for risk and profit objectives. Consequently, cooperatives must develop financial programs and seminars tailored to psychological, not demographic needs.

Personalized production and market planning has the potential to add value to the livestock enterprise beyond the costs of service to the producer. Such programs may also fill a need among the growing category of part-time producers who will not have time to keep up with industry developments.

Surveyed producers wanted lower marketing costs. Under the present cooperative structure of many marketing facilities, or, in the case of terminals, only one, declining volumes probably prevent cost reductions. Substantial increases in volume are improbable. Cooperatives should close questionable facilities faster in the future before they become a long-term drag on profitability. Closing facilities is especially hard for cooperatives, given their mandate to serve members, so some mistakes may be made. Facility decisions can be more emotional than rational because members are not forced to make marketing agreements with cooperatives.

Development and strict adherence to publicized timetables about the duration of a program or facility contingent on volume increases or marketing agreements is one way cooperatives will gain some control over costs in the future. Another way is to institute differential charges, to reflect variability in marketings across the operating territory of the cooperatives, or simply to be more price competitive with independent auctions. An example of differential pricing, followed by at least one cooperative, is a 25- to 50-cent-per-cwt. premium, depending on hog quality, if deliveries are received by 9 a.m. This cooperative also offers producers the best of the previous Friday's or Monday's market, if producers consign hogs on Friday and deliver by 9 a.m. on Monday. This

guaranteed pricing program is popular with producers, and gives the cooperative an opportunity to utilize staff more effectively.

Much of the benefit from adjusting services is lost if patrons are not aware of what is available. Cross-selling should be supplemented with greater advertising of the cooperatives' services. Unlike cooperatives in other commodities, livestock cooperatives almost never advertise in regional or national livestock publications. To reduce advertising costs, cooperatives might consider joint advertising such as pairing a livestock feed with an advertisement for marketing services. This approach is increasingly used in the food industry.

Cooperatives would also benefit from a logo and slogan highlighting their unique ''cooperative'' identity in the livestock industry. Each might make the notion of ''cooperative'' livestock marketing services more easily grasped by potential users, reduce the perception that cooperatives are just like any other livestock marketing agency, and convey the strength of a ''chain of cooperatives'' across the country.

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Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

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